Appeals Decision

On July 1. 1997. the United States Court of Appeals for the District of Columbia Circuit issued its decision in a consolidated case dealing with 20 separate appeals of portions of the September 20. 1996 FCC Payphone Order. Although the Payphone Order has important implications for the Local Exchange Carriers ("LECS") and Interexchange Carriers ("IXCs") as well. we will concentrate our observations on the implications for the Independent Payphone Providers ("IPPs"), and particularly on those on which we have previously published research.

Our conclusion is that important portions of the Payphone Order that benefit the IPPs have been sustained by the Court, others remanded for further consideration. None have actually been reversed. However. the remand of important features of the FCC's dial-around compensation and other provisions does increase the general uncertainty surrounding the industry.

Because this decision is less than a total victory for the IPPs, it is likely to be viewed as a negative by the market, and we expect the stocks to come under some pressure in the immediate future. In particular, we point out that it is impossible to view this decision as a positive for the pending tender offer by PhoneTel Technologies, Inc. for the common stock of Communications Central Inc.

The Issues Appealed

As reiterated by the Court in its decision, the various appeals addressed the following seven FCC decisions:

1. To assume authority over the rates for intrastate local coin calls,

2. To set the interim rate of compensation at $45.85 per phone per month,

3. To tie the permanent rate of compensation for such calls to the market rate for local coin calls,

4. To require only large interexchange carriers to pay Payphone Service Providers ("PSPs") for these calls during the first year,

5. To require all IXCs to track compensable calls and t compensate PSPs after the first year.

6. To reclassify payphone assets transferred to deregulated operations of a Bell Operating Company at net book value and those transferred to a separate affiliate at fair market value.

7. To forbid the Bell Operating Companies ("BOCs") from discriminating between their own and their competitors' payphones in the provision of tariffed services.

The BOCs also contended that the FCC erroneousl excluded inmate and other O+ calls from the interir compensation plan, an issue which the Court remandec Each issue is discussed below.

1. Preemption of Regulation of the Local Coin Rate

(Court Sustains the FCC.)

Appeals on this point attempted to invoke both case la and construction of the statute to argue that the 199 Act's mandate to "ensure that all payphone servic providers are fairly compensated for each and ever completed intrastate and interstate call" did not give th FCC power to preempt state regulation of local coi rates. The logic was a bit convoluted, but we can ski repeating it here, since the Court's ruling is quite clear.

"It is undisputed that local coin calls are among th intrastate calls for which payphone operators must b 'fairly compensated'; the only question is whether i §276 the Congress gave the Commission the authority t set local coin call rates in order to achieve that goa We conclude that it did. ... Because the on compensation that a PSP receives for a local call (asic from the subsidies from CCL charges that LE payphone providers enjoy) is in the form of coin deposited into the phone by the caller ... we hold that th statute unambiguously grants the Commission authori to regulate the rates for local coin calls."

Comment:

A clear victory for the FCC and the payphone industr In addition to affirming the FCC's authority over loc coin rates, this decision established a precedent for FC preemption of other potentially adverse state (and, b

implication. municipal) regulations relating to zoning. siting. taxation. etc.

2 & 3. The Amount of Compensation

(Remanded for further consideration)

The Court concluded that the FCC had made an error in their justification for setting the interim and per-call compensation rate at a $0.35 per call "default" rate (times an estimated average 131 calls per phone per month in the interim). The FCC ruled that $0.35 was the "market-determined" local coin rate in those markets where local coin had already been deregulated, noting in the Payphone Order:

"If a rate is compensatory for local coin calls, then it is an appropriate compensation amount for other calls as well, because the cost(s) of originating the various types of payphone calls are similar.[39]*"*

The court found this to be in error, noting that:

"The problem with the FCC's decision is that the record in this case is replete with evidence that the costs of local coin calls versus 800 and access code calls are not similar. ... Even the APCC, a trade group for independent PSPs, acknowledged that the costs of coin calls are higher than those of coinless calls. ... Accordingly, we remand this issue to the agency for further consideration"

Comment:

At best a partial setback for the PSPs, raising a number of unanswered questions. Note first that the Court did not specifically vacate this portion of the order, leaving open the question of what happens in the interval between now and when the FCC issues its Order on Reconsideration. In addition, it is not clear what will happen to the interim compensation amount ($45.85 per phone per month) that the PSPs have been accruing since last November.

There is no question that Payphone Service Providers are entitled by the 1996 Act and the Payphone Order to compensation for dial-around calling. The only question pertains to the correct amount. Although the Court was silent on the issue, common sense and regulatory precedent lead us to believe that the PSPs who have actually received the interim compensation for the November 7 - December 31, 1996 period will not have to "give back" any of the amounts received.

It is also not a foregone conclusion that the FCC's Order on Reconsideration will specify a lower amount of interim or per-call compensation. although that was certainly the intent of the appeals. An additional question is what the IPPs will do in the interim with regard to additional accruals of dial-around compensation.

On balance, this remand is viewed as a negative for the PSPs.

4.Requiring Interim Compensation from Large IXCs

(Remanded for further consideration)

The Payphone Order mandated that the interim $45.85 per month dial-around compensation be paid only by those IXCs with more than $100 million in annual revenue. Noting that if the smaller IXCs were required to pay as well, their share of the tab would be as much as $4 million per month, the Court concluded,

"Administrative convenience cannot possibly justify an interim plan that exempts all but large IXCs from paying for the costs of services received. Perhaps more fundamentally, the FCC did not adequately justify why it based its interim plan on total revenues, as it did not establish a nexus between total toll revenues and the number of payphone-originated calls."

Comment:

Not particularly significant for the PSPs, so long as someone compensates them for dial-around calls.

5. IXCs Required to Track Calls and Pay Compensation

(FCC affirmed.)

The basic rationale for requiring the interexchange carriers to track and pay for those dial-around calls that they carry was and is that they are entities that benefit from the traffic in terms of generating revenue.

[39] FCC Payphone Order, §70.

6. Reclassification of Assets

(Partially vacated and remanded.)

Although this issue is primarily internal to the LEC payphone operations, it may have an indirect impact on the IPPs, and is worth a brief discussion (it actually got more column space in the Court opinion -- nearly five full pages -- than any other single issue.).

To prevent future cross-subsidization of LEC payphones by other LEC operations, the FCC's Payphone Order required the LECs providing payphone service to either transfer its payphone operations to a "structurally separate affiliate," or to in effect maintain them as a separate operating division that maintains a separate set of books. In the former case the transfer was to take place at "fair market value" which would include intangibles such as the value of location contracts. In the latter, at net book value.

Without going into a lot of regulatory and legal detail, suffice it to note that the LECs want to book their payphone assets at the lowest possible value, thereby lowering their overall book cost of operation. The IPPs, by contrast, want the LEC assets to be valued at fair market value.

From the viewpoint of the publicly traded companies, we view the whole controversy as essentially silly, since the market tends to value such companies on the basis of cash flow, which has little to do with historical asset valuation levels or noncash charges for depreciation. But in terms of enabling the LECs to justify lower charges, higher commission rates, or otherwise being more competitive, the IPPs may have a point.

Regardless, the Court fell back on a long history of book value accounting in such matters, and ruled that

"... we agree with the BOC petitioners that the Commission's fair market valuation methodology is arbitrary and capricious and contrary to our precedent. Therefore, we will vacate and remand that portion of the Commission's order for further proceedings. However, we reject the APCC petitioners' argument that the Commission's net book valuation method is arbitrary or contrary to the command of §276."

7. Non-discriminatory Provision of Basic Services

(FCC upheld)

At issue here is whether the 1996 Act's requirement th "any Bell operating company that provides paypho service ... shall not prefer or discriminate in favor of payphone service" applies to all services provided LEC payphones, or just those that must also be used other PSPs, such as billing and collection services.

The FCC had essentially ruled that only "basic" servic used in the provision of payphone service (dial tor answer supervision, collect/return current, etc.) need tariffed and provided on a non-discriminatory bas The IPPs appealed, seeking access to other services an equal footing with the LECs. The court upheld t FCC, ruling that such services were available on competitive basis from other sources.

Comments on the Appellate Decision

As we noted earlier, because the decision on appeal w less than totally favorable. However, we suggest t following two major considerations.

First, note that there never has been any questi whether or not PSPs are entitled to compensation f dial-around traffic. Because of the remand the issu everyone will assume that the FCC has a mandate fr the Appeals Court to come up with a lower level of di around compensation. Certainly, that is what t appellants were seeking. However, the Court sa nothing about the *level* of compensation represented the $0.35 used by the FCC. The objection was to h they determined it to be the "fair" level of compensati required under the 1996 Act, and to the FCC's stateme in the Payphone Order that local coin calls and di around calls had identical costs.

It is entirely possible that the FCC will undertake t required reconsideration, look at the costs of coin non-coin calls, and conclude that $0.35 is the corr rate after all. As we have noted in previous commer on this issue, the Courts will not normally substitu their judgment for that of supposedly expert agenc like the FCC. And they have not done so here, objecti to the process rather than the result.

Second, we note that the complete affirmation of the power of the FCC to preempt state regulation of the local coin rate is an upside development. Even a ten cent increase in the average local coin rate will have a powerful impact on the revenues, cash flow, and profitability of the publicly-owned IPPs, and it now appears that this will occur on schedule on October 7 of this year.

Impact on IPP Earnings Outlook

At present we do not know what impact the Court decision will have on the earnings of the IPPs in the interim until an FCC decision on reconsideration is issued. And although we believe that all parties will press the FCC for quick action, they do not now have any time mandate for action, so "the interim" could be a long time.

Assuming that the FCC does not give any immediate indication of its potential action in response to the remand orders, the IPPs could undertake a wide range of actions. At one extreme, they could continue to accrue the full $45.85, on the basis that that is the best estimate of the ultimate outcome. At the other, they could cease accruing any dial-around compensation, perhaps even establishing reserves for potential reduction or reversal of amounts previously accrued (or even paid). As noted earlier we believe it to be unlikely that amounts booked prior to July 1 (which would include compensation due through the end of the June quarter) will be reduced retroactively. But you never know.

Preliminary discussions with the managements of all three of the publicly traded IPPs we have under coverage indicates that none of them have made any decisions regarding their immediate policy with regard to continuing to accrue for dial-around compensation. What is clear is that AT&T and the other "large" IXCs are going to balk at making any further cash payments until the twin issues of who pays, and how much (both of which have been remanded) are cleared up.

Regardless of the accounting policy selected, we expect that the cash flows of the IPPs will be reduced significantly in the interim period. It is of course possible that the FCC will respond promptly to the remand order, but we would not count on it.

Because portions of the Court decision are highly favorable, and because we have no clear indication from the companies regarding their immediate response to the order, we are not revising any earnings estimates at this time. However, we do caution investors that regardless of how the earnings outlook appears, our cash flow estimates for the companies could be revised sharply downward (with a corresponding increase in accounts receivable) if it appears that the companies will not be receiving any cash payments for dial-around compensation until the FCC issues a new order.

Other Provisions of the Payphone Order

BOCs must implement requirements of Computer Inquiry III and the 1996 ACT to open up their local networks before being permitted to select IXCs for their payphones.

- IPPs can carry IntraState and IntraLATA traffic on their presubscribed IXCs. (i.e., the states can no longer forbid IPP competition with LECs for IntraLATA toll traffic.)
- Existing contracts between IPPs, IXCs, and location owners are grandfathered.
- "Letterless" keypads (which make it near impossible to dial "800 CALL ATT", for example) are prohibited on payphones.

Implications for the IPPs

As we have attempted to relate above, the development of the Independent Payphone Providers ("IPPs") has followed a familiar pattern. As competitors attempt to establish positions in markets formerly controlled by the monopoly telephone companies, the companies under attack, hampered by inflexible, often irrational regulation, strike back with whatever resources they can muster.

The new entrants -- in this case the Independent Payphone Providers -- generally have available more modern technology and (most importantly) the ability to avoid some of the economically irrational and unprofitable burdens placed on the telephone companies by traditional regulatory and service practices. The telephone companies, on the other hand, have vastly greater financial resources and market presence, as well as considerable initial influence over the regulators and legislators who set the ground rules.

The resulting tug-of-war between competitors and established telcos generates alternate waves of enthusiasm and despair among investors as events in the industry unfold. In addition, many of the new, more aggressive competitors tend to over-expand and pursue business that proves unprofitable in the short run. This does bad things to their stocks. Eventually, however, the newly competitive industry does move grudgingly towards a more-or-less level playing field, and the twin forces of technology and a political mandate for more competition eventually create an opportunity for soundly-managed competitors to operate profitably.

It is the thesis of this report that the Payphone Service Provider ("PSP[40]") industry, particularly what we have referred to as the "Independent Payphone Providers", will benefit greatly from current trends in the industry, most particularly from the terms of the 1996 Act and the FCC Payphone Order. In part the benefit will be financial, as issues related to dial around compensation and the local coin rate are addressed. But more importantly from a long-term aspect is the fact that the 1996 Act and the FCC Order recognize the IPPs as a legitimate part of a larger "Payphone Service Provider" industry, with the clear intent to move toward a level playing field on which this industry can thrive.

We believe that the industry is currently at a low point in market valuation as a result of several major factors discussed above, and that prospects for improved operating results and stock market performance are good at the present time. As we have noted several times, events in this industry move slowly, and a commitment to investment in this segment of the telecommunications industry should not be viewed as a short-term action, but rather as a long-term strategic action to take advantage of the continuing trend towards increasing competition in the telecommunications industry generally.

The return to profitability will not be speedy -- events in the telecommunications industry tend to move slowly. But the impact over time of recent developments should be positive. Investors who have witnessed the ultimate success of competitors in other formerly monopoly segments of the telecommunications industry[41] will understand the transformation now taking place in the local exchange business, of which payphone service is a segment. Those who find the investment thesis below credible will wish to look closely at the Independent Payphone Providers for opportunities as the competitive marketplace develops.

[40] See Appendix A for a glossary of the more important confusing acronyms and terms used in the industry and in this report.

[41] In the long-distance segment, the recent announcement of an agreement under which British Telecom will acquire the 80% of MCI Communications that it does not already own has emphasized the success of that company in the formerly monopoly long-distance business. However long-distance market entrants such as MCI and Sprint (and their predecessor companies) struggled for decades before establishing a (relatively) level playing field on which they became profitable. In the local exchange portion of the industry much the same can be said for the history of the Competitive Access Providers ("CAPs"), also known as "fiber bypass" companies (Intermedia, Teleport, MFS, etc.) who underwent a similar period of competitive pressure

Appendix I
Overview of the Publicly Traded Independent Payphone Providers

The following pages contain summary information regarding the four major publicly traded IPPs: (in alphabetical order): Communications Central Inc., Davel Communications Group, Inc., Peoples Telephone Company, and PhoneTel Technologies, Inc.

With the exception of PhoneTel Technologies, HBW has published stand-alone research reports on each of these companies. In addition, we also have a basic report on the inmate services portion of the industry. Copies of each are available on request.

It should be noted that two of the companies are in the midst of a potential merger. As explained below, Communications Central and PhoneTel Technologies are in the midst of talks to "restructure" their agreement under which PhoneTel was to acquire Communications Central for $12.85 per share in cash. Although details have not been forthcoming from the companies, it appears that PhoneTel has been unable to secure the financing needed to complete the transaction. Probably the July 1 remand of significant portions of the FCC Payphone Order created additional uncertainty on the part of potential providers of capital. In any event, the outcome of that deal is in doubt, pending announcement of new terms by the companies.

Relative Valuation Measures

The brief company descriptions are followed by a relative valuation analysis of the four stocks, based on what we believe to be the appropriate valuation measures. Because only Davel Communications Group has been consistently profitable, the analysis depends in large part on multiples of revenue, "cash flow" (EBITDA), and on total enterprise value (debt plus equity) per installed payphone, a measure commonly used in evaluating acquisitions within the industry.

H B W

Company Profile

Recommendation: HOLD

COMPANY PROFILE — August 1, 1997

Communications Central Inc. (CCIX - 9 1/4)

Company Name: Communications Central Inc.
State of Incorporation: Georgia
Founded: June 1986 IPO: December 1993
Banker: Raymond James/ J.C. Bradford
Shares Outstanding: 6.28 Million
Market Cap.: $56.5 Million
52-Wk. Hi/Lo: 12 - 5
Avg. Daily Trading: (July) 22,300
FY Ends: June
Auditor: Ernst & Young
TTM Price/Sales: 0.52x
Book Value: $4.41
Tangible Book: ($2.77)
Short Interest: (June) 8,800

Symbol/Exchange: CCIX - NASDAQ National Market
HQ: 1150 Northmeadow Pkwy., Roswell, GA 30076
Contact: Doug McKeever *Phone*: 770-442-7377
Facsimile: 770-751-9082 *Internet*: NA
Inst Ownership: 54%
Major Holders: RIT Capital Partners
Liberty Investment Management
Brinson Partners
Heartland Advisors
Dividend: None
Analyst: Bain/Power

	Consensus	P/E	High	Low	Number
FY '97 EPS	$0.05	NMF	(0.14)	(0.20)	2
FY '98 EPS	NA				

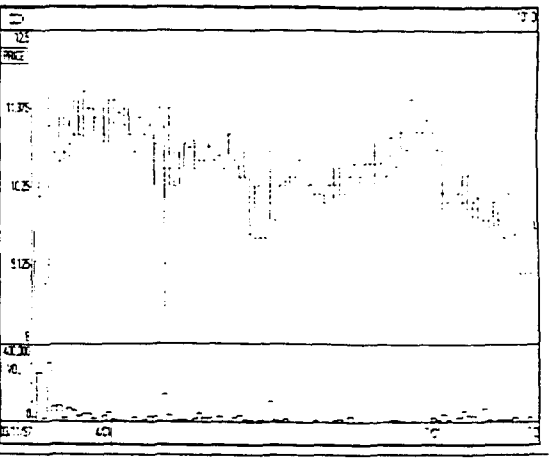
Company Description: Owns and operates approximately 21,000 public payphones and 4,800 inmate lines in various locations in 41 states and the District of Columbia. Payphones generate revenue from both coin and non-coin calls. Inmate phones generate only non-coin revenue, virtually all of which is in the form of collect calling. The inmate phones are installed in approximately 650 locations, primarily at the county and local government level.

Communications Central grew rapidly through acquisition after its IPO in late 1993, adding more than 10,000 payphones and 3,300 inmate lines, largely through cash asset purchases. Pressure on non-coin revenue from "dial-around" calling, plus a high level of uncollectible revenue from the inmate segment combined to severely impact results in the third (March) quarter of 1995, when the company unexpectedly reported a loss of $0.04 per share. This in turn put the company in violation of its loan covenants, limiting access to expansion capital, and eventually leading to a large write-off in the third quarter of fiscal 1996.

A new management team has been slowly rebuilding the business, and our general outlook is for a return to profitability in the December quarter, when the benefits of both dial-around compensation and local coin deregulation become evident. However, on March 14 it was announced that a definitive agreement had been reached between Communications Central and PhoneTel Technologies, Inc., under which PhoneTel would acquire the common stock of CCIX for $12.85 per share in cash. Although 94% of the stock is reported to have been tendered to PhoneTel, the company has apparently been unable to come up with the estimated $170 million in cash needed to close the deal, and on July 21, the companies jointly disclosed that they were in talks to "restructure" the deal. Although any such restructuring would, in our opinion, give the deal a very high probability of closing, we are maintaining a neutral stance on the stock until the new terms are released.

Capitalization (3/31/97)	$Mil	%
Long-Term Debt	73.2	73.3%
Preferred Equity	-	0.0%
Common Equity	26.7	26.7%
TOTAL	99.9	100.0%

	Earnings and Cash Flow Per Share		
	Jun-96	Jun-97E	Jun-98E
Q1 EPS	$0.13	$0.00	
Q2 EPS	$0.09	($0.06)	
Q3 EPS	($3.12)	($0.14)	
Q4 EPS	($0.05)	$0.07	
FY EPS	($2.96)	($0.14)	$0.40
FY CFPS (EBITDA)	$0.04	$2.97	NA



Company Profile

Recommendation: BUY

COMPANY PROFILE — **August 1, 1997**

Davel Communications Group (DAVL - 17 3/4)

Company Name: Davel Communications Group
State of Incorporation: Illinois
Founded: 1972 IPO: October 1993
Banker: R. W. Baird
Shares Outstanding: 4.46 Million
Market Cap.: $80.1 Million
52-Wk. Hi/Lo: 19 - 12
Avg. Daily Trading: (July) 3,400
FY Ends: December
Auditor: Kerber, Eck & Braeckel, LLP
TTM Price/Sales: 2.17x
Book Value: $7.93
Tangible Book: $5.97
Short Interest: Nil.

Symbol/Exchange: DAVL - NASDAQ National Market
HQ: 1429 Massaro Blvd. Tampa, FL 33619
Contact: Michael Kouri *Phone:* 813-623-3545
Facsimile: 813-626-9610 *Internet*: NA
Inst Ownership: 29.3%
Major Holders: Fidelity Investments
Liberty Investment Management
Ashford Capital
Bear, Stearns Capital Management
Dividend: None
Analyst: Bain/Power

	Consensus	P/E	High	Low	Number
FY '97 EPS	$1.28	13.9x	$1.59	$1.09	4
FY '98 EPS	$1.73	10.3x	$2.20	$1.50	3

Company Description:

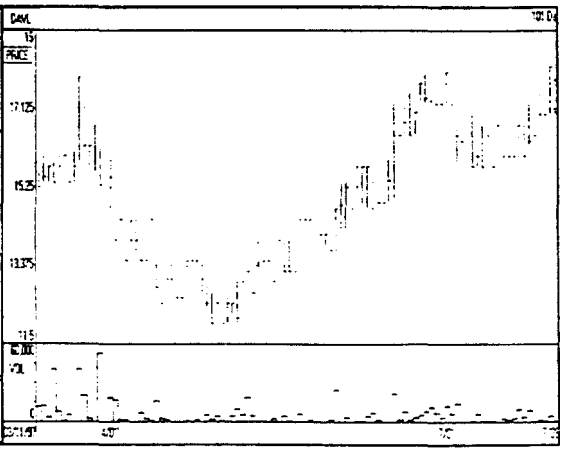
Davel Communications Group owns and operates approximately 15,200 pay telephones in 24 states. Davel also provides operator services and call completion through its Florida switching facilities to those phones. In late 1996 the company discontinued its telephone refurbishing business, and also sold its hospitality division, as a result of which Davel is now almost entirely concentrated in the pay telephone business.

As with the other major payphone operators, Davel has grown both through internal sales and through acquisition, although they have been relatively conservative and have tended to pay less for acquired properties. As a result, the company has been able to weather the difficult period of the past several years with no major financial problems in the core payphone business. Although the company did undertake major write-offs of license values and goodwill in their former hospitality business, they have remained consistently profitable on an annual basis, and have one of the stronger market valuations in the group.

Because Davel is very sound financially and will benefit from the dial-around compensation and local coin deregulation features of the FCC Payphone Order, we continue to recommend it as the quality investment in this industry, despite its relatively high valuation as compared with the other companies.

Capitalization (3/31/97)	$Mil	%
Long-Term Debt	2.7	7.3%
Preferred Equity	-	0.0%
Common Equity	34.1	92.7%
TOTAL	36.8	100.0%

	Earnings and Cash Flow Per Share		
	Dec-96	Dec-97E	Dec-98E
Q1 EPS	$0.18	$0.25 A	
Q2 EPS	$0.21	$0.34	
Q3 EPS	$0.18	$0.45	
Q4 EPS	$0.14	$0.55	
FY EPS	$0.71	$1.59	$2.20
FY CFPS(EBITDA)	$1.83	$3.43	



Trailing Twelve Months

	PHO	CCIX	DAVL	PHN
Revenues, Qtr. Ended				
Jun. '96	31,959	26,164	8,862	10,199
Sep. '96	30,994	26,792	9,986	11,510
Dec. '96	31,508	26,367	10,192	16,489
Mar. '97	31,608	25,396	10,680	27,658
12-Month Revenues	126,069	104,719	39,719	65,855
EBITDA, Qtr. Ended				
Jun. '96	4,945	4,167	2,187	1,828
Sep. '96	4,395	4,609	2,095	2,414
Dec. '96	5,416	4,381	1,976	3,302
Mar. '97	5,605	3,754	2,725	7,669
12-Month EBITDA	20,361	16,911	8,983	15,213
EBITDA Per Share	*$1.26*	*$2.77*	*$1.97*	*$2.04*
Net Income, Qtr. Ended				
Jun. '96	(4,442)	(315)	933	(3,183)
Sep. '96	(3,666)	3	838	(3,335)
Dec. '96	(4,172)	(367)	619	(13,571)
Mar. '97	(3,898)	(870)	1,122	(1,148)
12-Month Net Income	(16,178)	(1,549)	3,513	(21,237)
Net Income Per Share	*($1.00)*	*($0.25)*	*$0.77*	*($2.85)*
Other Valuation Data				
No. of Coin Phones (current)	38,500	20,177	15,554	40,829
No. of Inmate Phones (current)	1,700	4,700	-	-
Weighted Shs. Outstanding	16,193	6,110	4,549	7,458
Shares Outstanding (current)*	16,195	6,284	4,581	16,097
Recent Price (7/29/97 close)	3 1/16	8 1/2	17 3/4	2
Market Capitalization	49,599	53,416	81,318	32,194
Total Debt (3/31/97)	101,056	73,197	2,701	126,532
Enterprise Value	150,655	126,613	84,019	158,726
EV Less cash:	146,288	125,063	82,977	149,258
Total Assets (3/31/97)	133,630	110,451	42,198	167,059
Less: Intangibles Goodwill	6,746	43,494	266	104,945
Tangible Assets	126,884	66,956	41,932	62,114
Tangible Assets/Share	*$7.83*	*$10.65*	*$9.15*	*$3.86*
Less: Total Debt	101,056	73,197	2,701	126,532
Net Tangible Assets	25,828	(6,241)	39,230	(64,418)
Net Tangible Assets/Share	*$1.59*	*($0.99)*	*$8.56*	*($4.00)*

* CCIX price based on pre-acquisitions levels, & shares outstanding do not assume full dilution for acquisition

RELATIVE VALUATION ANALYSIS

	PHO	CCIX	DAVL	PHN
RATIO OF TOTAL ENTERPRISE VALUE TO				
Revenue - TTM	**1.16**	1.19	2.09	2.27
EBITDA - TTM	**7.18**	7.40	9.24	9.81
RATIO OF TOTAL ENTERPRISE VALUE TO				
Total Assets (EV/A)	1.09	1.13	1.97	**0.89**
Tangible Assets (EV/TA)	**1.15**	1.87	1.98	2.40
RATIO OF CURRENT STOCK PRICE TO				
EBITDA Per Share - TTM	2.44	3.07	8.99	**0.98**
Earnings Per Share - TTM	NMF	NMF	22.99	NMF
ASSET VALUATION: RATIO OF PRICE TO				
Tangible Assets Per Share (P/TA)	**0.39**	0.80	1.94	0.52
Net Tangible Assets Per Share (P/NTA)	**1.92**	(8.56)	2.07	(0.50)
VALUATION PER INSTALLED PAYPHONE				
Enterprise Value	146,288	125,063	82,977	149,258
Estimated Valuation of Phones				
Number of Coin Phones	38,500	20,177	15,554	40,829
Number of Inmate Lines	1,700	4,700	-	-
Valuation Per Public Coin Phone	**$3,491**	*$4,228*	$5,335	$3,656
Valuation Per Inmate Phone Line	**$6,983**	$8,457	-	-

* Bold face entries may be considered most attractively priced in the market.
NMF- Not Meaningful

APPENDIX II

Economics of payphone service

The capital investment per payphone will vary, depending on the nature of the phone installed, the difficulty of the installation, and any additional costs incurred in securing the location contract. With regard to the phone, it is helpful to note that the simplest payphones, generally called "dumb" phones, are the type generally used by the LECs. Such phones have minimal internal electronics, are entirely line-powered, and rely on central office "Coin Line" services to provide calling features. By contrast, the sort of phones used by the IPPs tend to be so-called "smart" payphones. Such phones have extensive internal electronics and software. Older models tend to require commercial power, although all the major manufacturers now offer line-powered models.

In general the "smart" payphone itself will cost the operator approximately a thousand dollars. Some installation cost will be incurred, which can vary from simply putting the payphone in the same location just vacated by an earlier provider (typically the serving LEC) to a complex affair requiring pouring a concrete pad, running electric power to the location, and erecting a pedestal or other suitable enclosure.[42] Additionally, there will typically be some selling expense involved, and in many cases there will be some sort of up-front "bonus" paid to the location owner.

Table 1 below summarizes the typical initial expenses incurred to establish a payphone location.

Table 1
Initial Cost to Install a Payphone

Payphone Instrument	$ 1,000
Pedestal or Enclosure	500
Agent/Salesman Commission	150
Spare Parts Inventory	100
Telephone Company Charges	100
Installation Expense	100
Total	$ 1,950
Power Installation, Site Preparation, Bonus to Location Owner (varies considerably)	??

Source: HBW Research

The future trend in capital costs can be expected to decline somewhat when and if economies of scale in the manufacturing of the electronics come into play. However, major components of the phone, including the case, handset, dial pad, coin mechanism, pedestal, and pad, are not particularly high-tech, and are unlikely to see any major cost reductions. What is more likely is that, as in the semiconductor industry generally, the functions and capabilities of the smart phones will continue to increase, whereas the price remains more or less constant.

Common sense indicates that the capital cost of an installed payphone should be depreciated like any other capital asset: over the expected service life, less salvage value. In the case of payphone service, the "service life" is the life of the associated contract with the location owner. Contracts tend to vary in duration, but three years seems to be a reasonable guess. The "salvage value" is just that: the realizable value of the payphone at the end of the contract. The market value of a used smart phone is on the order of $500 today. Using the capital figures above as a guide, and assuming that everything but the phone itself goes to zero value at the end of the contract, one can estimate the annual depreciation expense at:

($1,950 - $500)/5 = $483.33 per year or about $40 per month.

Assuming that the phone is entirely equity financed (to avoid "below-the-line" complications), the operating

[42] "Phone booths" of the type that Clark Kent used to turn into Superman have virtually vanished, having been largely replaced by semi-enclosed "pedestal" mountings in most locations. The reasons have to do with the cost of the fully-enclosed booths and the difficulty of keeping them clean and maintained in an era of rampant graffiti.

income statement associated with an incremental payphone can be estimated as shown tin Table 2 below.

Table 2
Hypothetical Income Contribution of a Payphone

	Monthly	Annually
Revenues: Coin (a)	$150	$ 1,800
Non-Coin (b)	80	960
Dial-Around	6	72
	$236	$ 2,832
Expenses: LEC Bill (c)	$ 75	$ 900
IXC/OSP Fees (d)	40	480
Commissions (e)	46	552
Depreciation	40	480
SG&A (f)	30	360
	$231	$ 2,772
Operating Income	$ 5	$ 60
Oper. Cash Flow (EBITDA)	$ 45	$ 540

Notes: (a) Assumes 500 calls averaging 30 cents. (b) Assumes 20 calls averaging $4.00 (c) $40/mo. plus 6.7 cents per call. (d) Half of Non-Coin Revenue (e) 20% of gross revenue. (f) 13% of gross revenue All dollar numbers rounded. Source: HBW Research

Under the assumptions given, the approximately 3.1% return on investment, or even the 28% cash-on-cash return may not appear too attractive. And of course it is the low level of returns that has affected the stocks of the payphone companies. But look what happens when the additional dial-around compensation under the Payphone order is added to the mix:

Table 3
Hypothetical Income Contribution of a Payphone
With $45.85 Interim Dial-Around Compensation

	Monthly	Annually
Revenues:		
Coin	$150	$ 1,800
Non-Coin	80	960
Dial-Around	46	552
	$276	$ 3,312
Expenses: LEC Bill (a)	$ 75	$ 900
IXC/OSP Fees (a	40	480
Commissions (b)	55	660
Depreciation (a)	40	480
SG&A (a)	30	360
	$240	$ 2,880
Operating Income	$36	$ 432
Oper. Cash Flow (EBITDA)	$76	$ 912

Notes: (a) Assumed unchanged under new compensation plan. (b) Assumes same 20% commission on Gross Revenue Source: HBW Research

This of course looks a lot more promising, with a 22% return on investment, and a 47% cash-on-cash return.

The numbers above are of course pre-tax, and hypothetical to boot. Although the revenue numbers are fairly characteristic (they are in fact based on the last reported results of Peoples Telephone Company), the expenses may not be. Additionally, the capital investment indicated ($1,950) may be understated to the extent that the question marks shown on Table 1 turn out to have a positive value.

Finally, of course, this analysis says nothing about what will happen when the dial-around compensation plan converts to a per-call basis. However, it is helpful to note that the FCC has determined that, across a broad spectrum of IPP phones, the average on the record in the

Payphone Order was 131 access code calls per month. (This times the $0.35 per call estimated compensation generates the seemingly-odd $45.85 per phone per month interim compensation amount.) Therefore, assuming that the per-call compensation rate does in fact settle out at $0.35 as the FCC believes, the *average* monthly compensation per phone will be unchanged. But individual phones, as well as entire routes, can vary widely.

APPENDIX III

A Glossary of terms

The following is the author's attempt to translate some of the jargon and acronyms used in this report into English. Readers will find this hard to believe, but we have tried to be brief, with the result that terms with which you *should* be familiar are not included. For example, we do not list or describe the term "Federal Communications Commission." Readers whose level of understanding is such that they do not know what the FCC is should probably steer clear of the payphone industry in the first place.

ACCESS CHARGE

A term that has various meanings, depending on context. In general it refers to any fee charged to a user or potential user of telecommunications service for the provision of calling capability ("access"), whether or not the service is actually used. In its general meaning, therefore, the flat monthly fee charged for "basic local service" can be considered to be an "access charge," which applies regardless of whether or not any calls are actually made.

In current usage, the term "access charge" normally identifies a quite different type of charge, the per-minute fees paid to the LECs by the IXCs for the origination and termination of long-distance calls. For reasons that are largely historical, these fees are bizarrely high, absorbing nearly half of the revenues of the IXCs, and generating one-quarter to one-third of the telephone revenues of the major LECs.

To add to the confusion, the term "access charge" was also originally used to identify the fixed monthly end-user charge for interstate access that was phased in for residential and single-line business from 1984 to 1989 and is now "capped" at $3.50 in most cases. This phase-in was part of the process by which interstate toll rates were reduced by nearly 60% between 1984 and 1989, thus spurring a huge increase in usage. Further increasing the confusion was a series of name changes in an attempt to distinguish this end-user charge from the IXC fees by calling it (a) the "Customer Access Line Charge", or "CALC", (b) the "End User Common Line charge", or "EUCL" (pronounced -- you guessed it -- "you-kull"), or (c) the "Carrier Common Line Charge", or "CLCC" (pronounced, we guess, "click"). Today, the most common term used is simply the "Interstate Subscriber Line Charge", as on the author's recent phone bill.

ACCESS LINE

Originally, this term referred to a pair of wires that connected a single end-user to the nearest central office (q.v.) in the PSTN. [In the case of party line service, the meaning gets a bit vague.] Today, of course the advent of subscriber line carrier and other systems have made the physical meaning of "access line" obsolete, but the term is still used to designate a single voice-grade access channel from the end user to the nearest node in a communications network.

1996 ACT ("THE ACT")

Shorthand for the Telecommunications Act of 1996. Signed into law by President Clinton on February 8, The Act is the latest in a series of amendments to the original Telecommunications Act of 1934. It addresses a number of issues fundamental to the provision of telecommunications service in the United States. The most important of these are rules affecting the various LECs, and in particular the BOCs which as of this writing are still subject to most of the restrictions contained in the original MFJ.

From the viewpoint of the PSP industry, however, the important provision of The Act is found in section 276, which, among other things, directs the FCC to establish rules to ensure "that all payphone service providers are fairly compensated for each and every completed intrastate and interstate call..."

ALTERNATIVE ACCESS VENDOR

A company that provides its customers with an alternative to the local telephone company for local transport of private line and special access telecommunications services. AAVs are also referred to in the industry as competitive access providers (CAPs), alternative local telecommunications service providers (ALTS) and metropolitan area network providers (MANs).

ALTERNATIVE OPERATOR SERVICE, ("AOS")

Used to describe an Operator Service Provider other than the traditional telephone companies. The AOS industry was created to serve the needs of alternative service providers, including long-distance resellers and IPPs, because the LECs and established IXCs refused to handle such traffic (or at least to share the revenues generated when they did). The alternate term "Operator Service Provider" ("OSP") presumably includes *all* operator services concerns, including the LECs and IXCs.

ANSWER SUPERVISION

A signal from the terminating end office that verifies that a called telephone in fact has answered (gone off-hook). An important feature of the interoffice PSTN, as it signals the originating switching office to begin timing the call for billing purposes, as well as confirming that the call was in fact answered. Not normally furnished to end-users over ordinary subscriber loops, including COCOT lines.

BILLED PARTY PREFERENCE ("BPP")

Explained at further length in the body of the report, BPP is the seemingly sensible notion that whoever is actually going to end up paying for a long-distance call (or any other telephone charge, for that matter), should pay it to the service provider that they prefer to use. In the case of ordinary residential or business calling, the subscriber to the LEC access line has the ability to "presubscribe" to any of the innumerable entities (there are more than 500 today) that provide interexchange service.

Provision of BPP to a payphone user is a bit more complicated, since the "subscriber" to the LEC service is the location owner, who will not pay for the actual calls. In the case of a payphone call made on, say, an MCI Calling card, the caller has, we suppose, a reasonable right to expect the call to actually be carried on the MCI network and billed to him by MCI. This would require the PSP to have some way of identifying the company that has issued the calling card number input by the caller. Modern data base inquiry and validation systems make this a manageable burden on the PSP. But what about a call charged to, say, a bank credit card? Now somebody would have to maintain a data base and validation system with information on every bank card issued to every potential caller. The difficulty becomes greater. Finally, consider a collect call. To implement BPP on collect calls, the PSP handling the call would have to have some way to determine, in real time, the IXC to which every single access line in the country is subscribed, before it could even be determined which IXC or OSP the call should be routed to for processing. Given that there are thousands of changes *per hour* in IXC presubscriptions across the country, the task of creating, managing, and maintaining such a data base becomes huge.

After a protracted investigation, the FCC has concluded that the costs of implementing BPP outweigh the benefits. By mandating that PSPs not block access to individual IXCs, the FCC has in effect made it possible for payphone users themselves to select their preferred carrier -- if they can figure out how.

BELL OPERATING COMPANIES ("BOCs")

Strictly construed, the BOCs consist of the individual operating LECs that were wholly-owned by AT&T prior to the 1984 divestiture. (Cincinnati Bell and Southern New England Telephone, which were minority owned by AT&T and were not parties to the divestiture, may also be considered to be BOCs). At the time of the divestiture, there were 21 such corporate entities, organized as subsidiaries of the seven "Regional Holding Companies" (*q.v.*), with the number of BOCs varying from one (Southwestern Bell, the sole five-state operating subsidiary of what is now known as SBC Communications) to five (New Jersey Bell, Bell of Pennsylvania, The Diamond State Telephone Company, and the various "Chesapeake & Potomac" companies that are subsidiaries of Bell Atlantic Corporation).

In common usage, even by those who should know better, this term is often confused with the "Regional Holding Companies" ("RHCs"). Worse yet, a complete malapropism, the "Regional Bell Operating Companies" -- probably used because of its cute pronunciation as the "ree-boks" (you know, like the sneaker company) -- is often heard. In fact, the RHCs are just that: holding companies with no actual operating assets of their own. But, hey!

BLOCKING

Historically used to describe a phenomenon in which a desired communication is prevented due to the unavailability of an idle transmission path. Also frequently used to describe a situation in which a given input to a network or switch cannot gain access to idle paths that do exist. In general, the traditional telecommunications industry has designed individual node-to-node links and switches to provide 1% or lower blocking probabilities during the average busy hour.

BUSY HOUR

The peak 60-minute period during a business day when the largest volume of communications traffic is handled. For network engineering purposes, the operant term is "Average Busy Hour," a theoretical traffic load based on the average daily busy hour during business days. As a point of reference, it may be helpful to note that busy hour traffic loads average about 0.2 Erlangs per local loop.

CENTRAL OFFICE

A telephone company plant location where wires or other media connecting end-user customers to the telephone network are brought together. Such offices, the lowest in the switching hierarchy, are sometimes called "end offices" or "Class 5" offices since the original "Bell System" architecture had four higher levels of switching. Higher levels of switching are called "tandem" switches, since they connect only to other switches. The term "Class 5" is obsolete as the major networks have converted to a dynamically-controlled "nonhierarchical" switching architecture.

CENTRAL OFFICE EQUIPMENT (COE)

A general term covering one of the three general classes of telephone plant (COE, outside plant, and customer premises equipment). COE includes such equipment as switches, voltage and current protection, wire and cable connecting devices, signal processing and amplification equipment, multiplexers, operator services equipment, monitoring and testing gear, power supplies (including emergency generators) and air pressure systems.

COMPARABLY EFFICIENT INTERCONNECTION (CEI)

A somewhat obsolete and ill-defined term arising from the FCC's Computer Inquiry III. CEI, required of the local exchange carriers under that ruling, would enable alternate providers of local exchange service to connect to a local distribution plant on the same terms and (presumably) at the same prices available to the local exchange carrier itself. On August 17, 1992, the FCC adopted lengthy rules (Docket 91-141) to implement CEI.

COMPUTER INQUIRY (II AND III)

A series of "investigations" by the FCC over the last several decades. So named because the first such proceeding, the "Computer Inquiry" was intended to determine the extent, if any, to which "computing" should be provided by the telecommunications common carriers, which in those days meant the Bell System. Originally rooted in the belief that huge mainframe computers, operating in a time-sharing mode, would bring computing power to the general public, the original concept behind the Computer Inquiry has become laughably naive through the proliferation of the microcomputer.

Computer Inquiries II and III increasingly recognized that the "last mile" LEC facilities were the ultimate "bottleneck" standing between the end-user market and the tremendously expanded capabilities of both communications and computing power in the nationwide network. For purposes of this report, the focus is on standards set by "the Third Computer Inquiry," or "Computer Inquiry III," ("CI-III") which set standards for opening up the local exchange bottleneck. These standards generally required the LECs to establish plans to implement vaguely-conceived objectives of "Open Network Architecture" and "Comparably Efficient Interconnection." The basic concept is that alternative users, even competitors, of the LEC facilities should be able to have access to the distribution and local switching plant on the same technical and financial terms the LECs themselves use in the provision of service to the public.

In the context of the Payphone order, the importance of the CI-III standards is that they specify the establishment of "functionally separate" accounting and management systems for unbundled LEC service operations. Implementation of these standards in the case of LEC payphone service will, presumably, reveal the "true" costs and profitability or lack thereof to the BOCs. Ha!

COIN LINE

The type of access line connection traditionally provided by the LECs to their own "dumb" phones. Coin lines provide additional signaling, control, and access features to those associated with ordinary business or residential access lines, among which are answer supervision, collect/return current to the coin escrow, and access to a "rate and route" automated data base that tells the customer how much to deposit for the initial calling period on a sent-paid call.

CUSTOMER-OWNED, COIN-OPERATED TELEPHONE ("COCOT")

A mildly pejorative term invented by the LECs to distinguish the access lines provided to IPP locations ("COCOT lines") from the "coin-line" service they provide to their own LEC-owned payphones. A COCOT line is essentially identical to an ordinary business or residential access line, but by giving it a new name, the LECs were in many cases able to justify a different (i.e. higher) rate structure with the PUCs. See further discussion within the report.

DIAL-AROUND

Used to describe a call originated from a payphone in which the user dials some sort of an "access number" to reach a carrier other than the one with which the PSP has a service agreement. An example would be a call that begins with the caller dialing something like "1-800-CALL ATT" (actually, of course 1-800-225-5288) to reach the AT&T long-distance system. (Other access methods, such as the "10XXX" carrier access codes can also be used.) Because TOCSIA required PSPs to enable some form of access to the caller's choice of IXC or OSP, there was no reason for carriers who did not have an agreement with a particular PSP to pay them a fee for dial-around calls. (See more discussion within the report). The FCC's *Report and Order* in Docket 96-388 corrects this situation by requiring phased-in compensation for all calls, including dial-around access calls. (Well, almost all. As mentioned within, the *Report and Order* requires all PSPs to provide "911" and telephone relay service calls free of charge.)

DOMINANT CARRIER

A typically vague term, thankfully going out of use, that was invented by the Federal Communications Commission in the early days of competition to denote common carriers "possessed of market power" (whatever that means). To duck the impossible task of regulating the many would-be entrants into the interstate and wireless telecommunications industry, the FCC decreed that they would only regulate "dominant" carriers. In practice, "dominant" carriers consisted only of AT&T and all of the 1,300-odd local exchange carriers. Under its basic rules, the FCC only regulated the prices charged by such dominant carriers: AT&T (for long-distance interstate service) and the LECs (for interstate access). "Non-dominant" carriers, such as MCI and U.S. Sprint long-distance were not considered to be dominant, and are not required to justify their prices. Much of the need for such distinctions has been eliminated by passage of the recent (1996) telecommunications reform legislation.

"800" SUBSCRIBER, ACCESS CALLS

Conceptually, there are two kinds of "800" calls in common use today. The most common are called "subscriber 800" calls of the kind that might be made to a toll-free number to order merchandise, or to call back to one's home office while traveling. By contrast 800 "access" calls are numbers like "800 CALL ATT" or "800 OPERATOR" that are expressly intended to enable callers to bypass the presubscribed carrier of a payphone or other telephone. With regard to compensation, it is easy to rationalize making someone, even the payphone user, pay for an 800 access call. After all, the intent of the such action is to deprive the IPP of revenue. But in the case of the subscriber 800 calls, the decision to pay compensation is more complex. After all, the reason that businesses and others subscribe to 800 services in the first case is precisely to make it possible for their constituents (customers, employees, etc.) to contact them without cost. So making the end user pay a "set use" fee or some such seems counterproductive.

INDEPENDENT PAYPHONE PROVIDER, IPP

Used to designate a PSP that is not one of the traditional telephone companies, such as a LEC, or IXC. Contrast with the term "Payphone Service Provider," which has been adopted by the FCC in the payphone order to include *all* payphone operators, LECs and IXCs, as well as IPPs.

INDEPENDENT TELEPHONE OPERATING COMPANIES

An anachronistic term used to describe the more than 1,300 individual telephone companies that were "independent" from AT&T (i.e., non-Bell) prior to the breakup of the "Bell System." Several, such as GTE Corporation and Sprint Corporation are fairly large. (GTE is much larger than any of the Bell Regionals.) Such companies tend to operate smaller telephone systems in the U.S. and are under both state and FCC regulation.

INTEREXCHANGE CARRIER, IXC

As usual, a somewhat imprecise term used to distinguish providers of "long-distance" service from the LECs. For practical purposes, it is synonymous with "InterLATA carrier." In some cases (Frontier Corporation or GTE, for example), a LEC can also be an IXC, frequently through resale. However, the distinction is important because of the antitrust provisions of the MFJ, which to this day essentially forbid the RHCs and their BO subsidiaries from the provision of InterLATA service. The *1996 Act*, which supersedes the MFJ, provides for eventual BO reentry into the interexchange business.

There are literally hundreds of IXCs registered with the FCC today, ranging from huge facilities-based companies like AT&T, MCI and Sprint, to small resale-based companies that in come cases have no actual operating telephone assets of their own. The latter "resellers" in effect act as marketing and customer-service organizations within the industry.

LOCAL ACCESS AND TRANSPORT AREA ("LATA")

The hands-down winner of the 1982 "awkward acronym" award, the LATAs were those geographic areas (there were originally 161) that were established by AT&T and the DOJ as part of the planning for the 1984 divestiture. In general (and, as always, there are exceptions), the spun-off BOCs originally retained all revenue sources within the LATAs, including long-distance ("toll") calls that originated and terminated within the same LATA. Calls between LATAs, however, had to be handed off to an "Interexchange Carrier" (which at the time essentially meant AT&T), even if those calls had earlier been carried by the LEC. This had the effect of maintaining (for the time being at least) the LEC monopoly on IntraLATA toll as well as local services.

Some states, like Wyoming had (and have) only a single LATA. Others have multiple LATAs (Florida, for example, has nine). LATAS generally do not cross state boundaries, with the result that the various state PUCs were able, at the time of the divestiture, to forbid competition with the LECs for IntraLATA toll service. Many of these restrictions have since been eased, with the result that in many cases the monopoly of the LECs has been weakened. But the prohibition on provision of InterLATA service by the BOCs remains in effect, subject to removal if the BOCs meet a lengthy series of near-impossible requirements of the 1996 Act.

LOCAL EXCHANGE CARRIER ("LEC")

A company providing local telephone services, also referred to in the industry as a "local exchange carrier," or an "LEC." From an end user's viewpoint, prior to the January 1, 1984 breakup of the Bell System, there was little practical distinction between the local exchange carrier and AT&T, since it was all "The Phone Company." However the Modification of Final Judgment (MFJ - which see) separated the local exchange business of the Bell System (the Regional Bell Operating Companies, or "RBOCs") from the long distance business (formerly "AT&T Long Lines," now called "Network Services"). Because the RBOCs are forbidden to enter the long-distance business (sort of), and AT&T is not permitted to invest in the RBOCs, a distinction between the LECs and IXCs ("Interexchange Carriers") has arisen. Currently, there are approximately 1300 local exchange carriers, and about 500 interexchange carriers.

LOCATION OWNER

Used to refer to the entity -- typically a property owner or tenant -- who controls the actual physical site where a payphone is located. In many cases, such as the familiar street-corner payphones all over New York, the location owner is a government entity. In others (hotels, restaurants,

Appendix IV

Payphones Operated by the Local Exchange Carriers

Among the innumerable data that the Federal Communications Commission requires telephone companies to report is a breakdown of access lines in service. Such data are published annually in a publication cleverly titled "Statistics of Communications Common Carriers." The data in this appendix have been extracted from two tables in the preliminary reports for 1995 and 1996, which contain data as of 12/31/95 and 12/31/96. A few things might be helpful to readers.

First, note that the number of lines shown will not agree precisely with statistics disclosed in the annual reports of most of the major LECs. (Some, such as U.S. West, do not even provide such a breakdown in their annual reports.) The annual reports usually disclose "business, residential, and other" lines. "Other includes, of course, "public access" (payphone) lines, but also includes other types of miscellaneous local loops.

Second, readers will immediately note that the "Average Monthly Revenues" we show for the LEC payphones are much lower than we have indicated for independently-owned payphones in the report above. As far as we can determine, this is for two reasons. First, of course, the LEC payphones probably are somewhat less productive than the average phone operated by an independent. More importantly, however, note that the LEC phones do not report revenues generated from interLATA toll calls (including interstate), which must be handed off to an interexchange carrier, which then bills the user (via calling card or other method) for the call. LEC payphone revenues consist of coin receipts and intraLATA toll. The LEC payphone does generate revenues for the LEC from such calls, in the form of the per-minute access charges that the LEC levies on the interexchange carrier for originating the call. However, although we are not absolutely certain of this point, we believe that the LECs book access revenues on interexchange calls generated by payphones as part of the overall access charge income, and not as part of the payphone revenue stream.

LEC Access Lines, Payphone Lines and Revenues

	Total Access Lines 1995	Total Access Lines 1996	% Change	Payphone Access Lines 1995	Payphone Access Lines 1996	% Change	Percent Payphone Lines 1996	Total Operating Revenues 1996	Payphone Revenues 1996	Percent Payphone Revenues 1996	Monthly Revenue Per Payphone 1996
AMERITECH											
Illinois Bell	7,166,038	7,664,356	6.95%	63,828	59,041	-7.50%	0.77%	3,553,987	100,774	2.84%	$136.70
Indiana Bell	2,366,754	2,348,475	-0.77%	21,679	20,569	-5.12%	0.88%	1,219,154	32,785	2.69%	$129.34
Michigan Bell	5,505,467	5,877,596	6.76%	57,975	54,437	-6.10%	0.93%	3,154,536	87,355	2.77%	$129.52
Ohio Bell	4,454,102	4,609,751	3.49%	36,538	34,281	-6.18%	0.74%	2,213,842	59,526	2.69%	$140.09
Wisconsin Bell	2,397,501	2,497,887	4.19%	19,879	18,206	-8.42%	0.73%	1,170,554	28,829	2.46%	$126.16
Total Ameritech	21,889,862	22,998,065	5.06%	199,899	186,534	-6.69%	0.81%	11,312,075	309,269	2.73%	$133.39
BELL ATLANTIC											
Delaware	513,210	550,371	7.24%	4,952	4,870	-1.66%	0.88%	277,042	5,572	2.01%	$94.55
Maryland	3,386,068	3,597,395	6.24%	32,568	32,132	-1.34%	0.89%	2,126,351	45,086	2.12%	$116.14
New Jersey	5,790,764	6,180,731	6.73%	73,282	71,954	-1.81%	1.16%	3,537,437	59,790	1.69%	$68.61
Pennsylvania	5,991,174	6,315,771	5.42%	57,357	55,821	-2.68%	0.88%	3,492,784	56,077	1.61%	$82.58
Virginia	3,248,730	3,489,542	7.41%	30,806	30,570	-0.77%	0.88%	2,120,763	37,581	1.77%	$102.05
Washington, D.C.	1,004,772	1,079,162	7.40%	8,355	8,222	-1.59%	0.76%	593,309	11,287	1.90%	$113.48
West Virginia	770,726	804,495	4.38%	8,234	9,047	9.87%	1.12%	590,734	8,726	1.48%	$84.16
Total Bell Atlantic	20,705,444	22,017,467	6.34%	216,554	212,616	-1.36%	0.97%	12,738,420	224,121	1.76%	$87.24
BELLSOUTH TELECOM.	22,595,391	24,493,047	8.40%	68,627	218,346	232.71%	0.89%	14,410,650	286,553	1.99%	$168.18
NYNEX											
New England Tel. & Tel.	6,628,107	7,071,906	6.70%	76,625	71,614	-6.54%	1.01%	4,576,736	67,214	1.47%	$75.57
New York Telephone	11,404,329	12,047,463	5.64%	178,627	168,900	-5.45%	1.40%	7,910,198	245,765	3.11%	$117.86
Total NYNEX	18,032,436	19,119,369	6.03%	255,252	240,514	-5.77%	1.26%	12,486,934	312,979	2.51%	$105.22
PACIFIC TELESIS GROUP											
Nevada Bell	328,155	361,166	10.06%	5,184	4,985	-3.84%	1.38%	186,939	3,227	1.71%	$52.89
Pacific Bell	18,454,015	20,159,681	9.24%	140,001	137,860	-1.53%	0.68%	8,161,406	166,936	2.05%	$100.13
Total Pacific Telesis Group	18,782,170	20,520,847	9.26%	145,185	142,845	-1.61%	0.70%	8,350,345	170,163	2.04%	$98.46
SBC COMMUNICATIONS	16,343,358	17,601,589	7.70%	176,325	175,376	-0.54%	1.00%	9,631,210	168,567	1.75%	$79.88
U S WEST COMMUNICATIONS	17,671,800	19,385,649	9.70%	121,013	115,473	-4.58%	0.60%	9,792,681	142,400	1.45%	$100.36
CINCINNATI BELL	950,093	995,491	4.78%	11,554	11,310	-2.11%	1.14%	648,870	16,204	2.50%	$118.12
SOUTHERN NEW ENGLAND	2,057,625	2,144,318	4.21%	26,048	24,722	-5.09%	1.15%	1,487,162	24,276	1.63%	$79.69
ALIANT COMMUNICATIONS	294,670	316,415	7.38%	3,456	3,532	2.20%	1.12%	194,956	1,145	0.59%	$27.31
ALLTEL	258,554	272,014	5.21%	1,771	1,892	6.83%	0.70%	218,786	1,647	0.75%	$74.94
Alltel Georgia	210,985	215,811	2.29%	1,010	1,090	7.92%	0.51%	139,772	400	0.29%	$31.75
Alltel Pennsylvania	469,539	487,845	3.90%	2,781	2,982	7.23%	0.61%	358,558	2,047	0.57%	$59.20
Total Alltel											
WESTERN RESERVE TEL.	159,053	167,301	5.19%	706	720	1.98%	0.43%	112,165	357	0.32%	$41.73

Source: Preliminary Statistics of Communications Common Carriers, Federal Communications Commission, December 31, 1996, Tables 2.9 and 2.10

HBW

LEC Access Lines, Payphone Lines and Revenues

	Total Access Lines		% Change	Payphone Access Lines		% Change	Percent Payphone Lines	Total Operating Revenues	Payphone Revenues	Percent Payphone Revenues	Monthly Revenue Per Payphone
	1995	1996		1995	1996		1996	1996	1996	1996	1996
CITIZENS TELECOM	283,030	271,339	-4.13%	2,951	1,267	-57.07%	0.47%	198,374	774	0.39%	$30.58
COMMONWEALTH TEL.	223,951	236,695	5.69%	2,191	2,219	1.28%	0.94%	147,472	628	0.43%	$23.73
GTE CORPORATION											
Contel of the South	162,769	169,954	4.41%	879	814	-7.39%	0.48%	114,128	601	0.53%	$59.17
GTE California	4,213,280	4,462,424	5.91%	43,168	44,583	3.28%	1.00%	3,070,623	30,509	0.99%	$57.95
GTE Florida	2,161,945	2,339,416	8.21%	13,054	12,610	-3.40%	0.54%	1,410,513	13,798	0.98%	$89.61
GTE Hawaiian Tel.	717,370	746,088	4.00%	7,519	7,162	-4.75%	0.96%	579,414	12,532	2.16%	$142.27
GTE Midwest	736,991	753,037	2.18%	3,824	3,431	-10.28%	0.46%	564,369	1,248	0.22%	$28.67
GTE North	4,229,450	4,425,920	4.65%	29,803	29,519	-0.95%	0.67%	2,951,211	16,723	0.57%	$46.98
GTE Northwest	1,336,115	1,451,623	8.65%	7,966	7,943	-0.29%	0.55%	1,046,897	6,894	0.66%	$72.22
GTE South	1,747,865	1,868,625	6.91%	11,935	11,725	-1.76%	0.63%	1,397,300	9,741	0.70%	$68.62
GTE Southwest	2,048,234	2,189,246	6.88%	9,848	9,633	-2.18%	0.44%	1,584,628	6,384	0.40%	$54.62
Total GTE	17,364,019	18,406,333	6.06%	127,996	127,420	-0.45%	0.69%	12,719,083	98,430	0.77%	$64.23
PUERTO RICO TEL.	1,152,028	1,213,084	5.30%	23,426	23,563	0.58%	1.94%	1,175,528	12,847	1.09%	$45.57
ROCHESTER TEL.	527,398	534,908	1.42%	5,578	5,623	0.81%	1.05%	321,007	4,227	1.32%	$62.90
SPRINT CORPORATION											
Central Telephone Co.	961,104	1,129,234	17.49%	3,246	3,219	-0.83%	0.29%	501,201	2,421	0.48%	$62.41
Central Tel. of Illinois	270,789	301,742	11.43%	2,767	2,729	-1.37%	0.90%	161,623	1,409	0.87%	$42.73
Central Tel. of Virginia	261,251	272,125	4.16%	2,246	2,241	-0.22%	0.82%	193,181	1,862	0.96%	$69.16
Carolina Telephone	1,017,700	1,058,408	4.00%	7,538	7,723	2.45%	0.73%	804,196	6,964	0.87%	$76.05
Sprint - Florida Inc.	1,805,256	1,845,093	2.21%	11,269	9,526	-15.47%	0.52%	1,201,841	8,779	0.73%	$70.36
United Tel. Southeast	331,738	349,661	5.40%	2,499	2,528	1.16%	0.72%	217,350	1,657	0.76%	$54.94
United Tel. of Indiana	226,377	257,537	13.76%	1,753	1,787	1.94%	0.69%	173,720	827	0.48%	$38.94
United Tel.of Missouri	247,027	266,219	7.77%	2,606	2,623	0.65%	0.99%	194,730	675	0.35%	$21.51
United Tel. of New Jersey	175,315	193,657	10.46%	2,233	2,269	1.61%	1.17%	145,708	622	0.43%	$23.03
United Tel. Northwest	137,213	144,225	5.11%	891	923	3.59%	0.64%	124,508	332	0.27%	$30.50
United Tel. of Ohio	604,608	625,838	3.51%	4,809	4,864	1.14%	0.78%	460,717	3,008	0.65%	$51.83
United Tel. of Pennsylvania	345,345	377,320	9.26%	3,678	3,743	1.77%	0.99%	255,920	1,241	0.48%	$27.87
United Tel. of Texas	138,346	145,611	5.25%	766	791	3.26%	0.54%	130,312	228	0.17%	$24.41
Total Sprint Corporation	6,522,069	6,966,670	6.82%	46,301	44,966	-2.88%	0.65%	4,565,007	30,025	0.66%	$54.83
Total	166,013,936	177,876,432	7.15%	1,431,843	1,540,028	7.56%	0.87%	100,650,497	1,805,012	1.79%	$94.15*

Source: Preliminary Statistics of Communications Common Carriers, Federal Communications Commission, December 31, 1996, Tables 2.9 and 2.10 *Total Monthly Revenue per Payphone of $94.15 was calculated without BellSouth reported payphone revenues and payphone lines due to year over year discrepancies in the company's reporting methodology.

APPENDIX V

A Survey of State Regulation

As noted in the body of this report, the Federal Communications Commission only has jurisdiction over *interstate* commerce, which in the case of the telecommunications industry means traffic that originates and terminates in two different states. Traffic that originates and terminates within a single state is typically subject to regulation only by the particular state regulatory authority in that state.

State regulation varies widely. In some states, commissioners are elected; in others, appointed. Some states employ huge staffs with budgets to match. Some states have extensive regulation of many industries, while others take a relatively *laissez faire* approach. In an attempt to give readers some notion of the scope of regulatory activity and policy at the state level, we have included summary data from the APCC's December 1995 issue of *Perspectives*. The summary data in this appendix is the result.

Readers are advised to keep in mind that we have only provided summary data in this analysis. Since most states boast multiple telephone companies (in some cases, as many as 50, each of which is entitled to file individual tariffs), local phone charges may vary significantly depending on location. It should be kept in mind that we only include the basic charges. Depending on the particular LEC tariffs, other services, such as blocking and screening of dialed numbers may be provided at additional charges.

Finally, we should comment that although a number of state jurisdictions have apparently concluded "officially" that they do not have statutory authority to regulate IPPs, most industry participants are expected to largely comply with LEC policy with regard to local coin or intrastate toll service.

It should also be noted that all of these state regulations, caps, and guidelines regarding the local coin rate will be preempted by the FCC's Order deregulating local coin prices as of October 7, 1997. This feature of the FCC Payphone Order has been sustained by the July 1, 1997 decision of the Federal Court of Appeals.

Summary of Local Rate Caps Imposed on Payphones

State	Max. Rate	Time Limits	Add. Charge	Add. Time
Alabama	$0.25	5 minutes	$0.25	3 minutes
Arizona	$0.25	3 minutes	NRS	NRS
California	$0.20	15 minutes	$0.20	15 minutes
Colorado	$0.25	NRS	NRS	NRS
Delaware	$0.25	NRS	NRS	NRS
Florida	$0.25	15 minutes	NRS	NRS
Georgia	$0.25	No limit allowed	No limit allowed	No limit allowed
Idaho	$0.25	Limit allowed	NRS	NRS
Illinois	$0.35	Limit allowed	NRS	NRS
Indiana	$0.25	No limit allowed	No limit allowed	No limit allowed
Iowa	$0.35	Limit allowed	NRS	NRS
Kansas	$0.25	No limit allowed	No limit allowed	No limit allowed

Kentucky	$0.25	NRS	NRS	NRS
Louisiana	$0.25	5 minutes	NRS	NRS
Maine	$0.25	5 minutes	NRS	NRS
Maryland	$0.25	No limit allowed	No limit allowed	No limit allowed
Massachusetts	$0.25	No limit allowed	No limit allowed	No limit allowed
Michigan	$0.25	NRS	NRS	NRS
Minnesota	$0.25	No limit allowed	No limit allowed	No limit allowed
Mississippi	$0.25	3 minutes	$0.25	3 minutes
Missouri	$0.25	No limit allowed	No limit allowed	No limit allowed
Montana	$0.25	NRS	NRS	NRS
Nebraska	$0.25	NRS	NRS	NRS
Nevada	$0.25	NRS	NRS	NRS
New Hampshire	$0.10	5 minutes	$0.05	3 minutes
New Jersey	$0.20	4 minutes	$0.05	4 minutes
New Mexico	$0.25	NRS	NRS	NRS
New York	$0.25	4 minutes	$0.05	2 minutes
North Carolina	$0.25	NRS	NRS	NRS
North Dakota	$0.25	No limit allowed	No limit allowed	No limit allowed
Ohio	$0.25	No limit allowed	No limit allowed	No limit allowed
Oregon	$0.25	Limits with posting	NRS	NRS
Pennsylvania	$0.25	10 minutes	NRS	NRS
Rhode Island	$0.25	NRS	NRS	NRS
South Carolina	$0.25	4 minutes	$0.25	4 minutes
Tennessee	$0.25	No limit allowed	No limit allowed	No limit allowed
Texas	$0.25	No limit allowed	No limit allowed	No limit allowed
Utah	$0.25	NRS	NRS	NRS
Vermont	$0.10	5 minutes	$0.05	3 minutes
Virginia	$0.25	No limit allowed	No limit allowed	No limit allowed

Washington	$0.25	NRS	NRS	NRS
Washington, D.C.	$0.25	No limit	N/A	N/A
West Virginia	$0.25	Limit allowed	NRS	NRS
Wisconsin	$0.35	No limit allowed	No limit allowed	No limit allowed
Wyoming	$0.35	Limit allowed/NRS	NRS	NRS

NRS= No regulation specified